Westpac Securities NZ Limited

Interim Financial Report

For the six months ended 31 March 2023

Westpac Securities NZ Limited

Contents

The Interim Financial Report does not include all of the notes of the type normally included in an Annual Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 September 2022 and any public announcements made by Westpac Securities NZ Limited during the interim reporting period in accordance with any relevant continuous disclosure obligations.

This Interim Financial Report covers Westpac Securities NZ Limited (the '**Company**') as an individual entity.

Westpac Securities NZ Limited is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is:

Westpac on Takutai Square
16 Takutai Square
Auckland

A description of the nature of the Company's operations and its principal activities is included in the interim management report on page 3.

The members of the Board of Directors of the Company ('**Board**') at signing date of these financial statements are Catherine Anne McGrath, Christopher Louis Hillier and Dirk Christopher McLiesh. Dirk Christopher McLiesh was appointed as Director on 6 October 2022.

Westpac Securities NZ Limited

Information contained in or accessible through the websites mentioned in these interim financial statements do not form part of these interim financial statements unless we specifically state that such information is incorporated by reference and forms part of these interim financial statements. All references in these interim financial statements to websites are inactive textual references and are for information only.

Disclosure regarding forward-looking statements

This Interim Report contains statements that constitute 'forward-looking statements' within the meaning of Section 21E of the US Securities Exchange Act of 1934.

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Interim Report and include statements regarding the Company's intent, belief or current expectations with respect to its business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. Words such as 'will', 'may', 'expect', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'estimate', 'anticipate', 'believe', 'probability', 'risk', 'aim', 'outlook', 'forecast' or other similar words are used to identify forward-looking statements.

These forward-looking statements reflect the Company's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond the Company's control, and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with the Company's expectations or that the effect of future developments on the Company will be those anticipated. Actual results could differ materially from those expected, depending on the outcome of various factors, including, but not limited to:

- information security risks and breaches, including cyberattacks;
- adverse credit and capital market conditions or depositor preferences;
- the incidence of inadequate capital levels under stressed conditions;
- the risk that governments will default on their debt obligations, will fail to perform contractual obligations or will be unable to refinance their debts as they fall due;
- changes to Westpac New Zealand Limited's ('**WNZL**') credit ratings or the methodology used by credit rating agencies;
- WNZL's substantial dependence on the New Zealand economy, as well as New Zealand's economic relationships with Australia and China;
- declines in New Zealand or overseas asset markets, including equity, residential and commercial property markets;
- a weakening of the real estate market in New Zealand;
- an increase in defaults, write-offs and insufficient provisions for expected losses;
- the effects of competition, including from established providers of financial services and from non-financial services entities;
- levels of inflation, interest rates (including low or negative interest rates), exchange rates and market and monetary fluctuations and volatility;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- the effectiveness of WNZL's risk management policies, including internal processes, systems and employees, and operational risks resulting from ineffective processes and controls, as well as breakdowns in processes and procedures requiring remediation activity;
- poor data quality or poor data retention;
- failure to recruit or retain key personnel;
- the occurrence of environmental change (including as a result of climate change), geopolitical risks or external events in countries in which WNZL or its customers or counterparties conduct their operations;
- changes to WNZL's critical accounting estimates and judgements and changes to the value of WNZL's intangible assets;
- losses due to impairment of capitalised software, goodwill and other intangible assets;
- strategic decisions including diversification, innovation, divestment, acquisitions or business expansion activity, including the integration of new businesses;
- internal and external events which may adversely impact WNZL's reputation;
- reliability and security of WNZL's technology and risks associated with changes to technology systems;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity, leverage and capital requirements;
- the failure to comply with laws, regulations or regulatory policy;
- regulatory investigations, reviews and other actions, inquiries, litigation and other legal proceedings (including class actions), enforcement actions, fines, penalties, restrictions or other regulator imposed conditions, including as a result of WNZL's actual or alleged failure to comply with laws (such as Financial Crime Laws (as defined below)), regulations or regulatory policy;
- the failure to comply with financial crime obligations, which has had, and could further have, adverse effects on WNZL's business and reputation;
- WNZL's ability to incur additional indebtedness and any limitations contained in the agreements governing such indebtedness;
- the inability to syndicate or sell down underwritten securities, particularly during times of heightened market volatility; and
- various other factors beyond WNZL's and the Company's control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made by the Company, refer to the section 'Risk factors' in this management report. When relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and events.

The Company is under no obligation to update any forward-looking statements contained in this Interim Report, whether as a result of new information, future events or otherwise, after the date of this Interim Report.

Westpac Securities NZ Limited

Management report

Review and results of the Company's operations during the six months ended 31 March 2023

The principal activity of the Company (acting through its London branch) is to raise and manage offshore wholesale funding for WNZL.
The profit after income tax expense of the Company for the six months ended 31 March 2023 was $2,987,000 compared with loss after income tax benefit of $2,851,000 for the six months ended 31 March 2022, an increase of 205%.

Interest income increased by 230% to $157,838,000 compared to the six months ended 31 March 2022.

Interest expense increased by 242% to $155,105,000 compared to the six months ended 31 March 2022.

Net interest income increased by 9% to $2,733,000 compared to the six months ended 31 March 2022.

Non-interest income increased by 2% to $291,000 compared to the six months ended 31 March 2022.

Impairment benefit increased by 115% to $992,000 compared with $6,500,000 impairment charge for the six months ended 31 March 2022.

Operating expenses increased by 2% to $264,000 compared to the six months ended 31 March 2022.

Tax expense increased by 169% to $765,000 compared with $1,109,000 tax benefit for the six months ended 31 March 2022.

Total debt issues as at 31 March 2023 was $16,928,580,000 which was a decrease of $690,523,000 or 4%, compared to $17,619,103,000 as at 30 September 2022. This decrease was due to maturities and strengthening in NZD foreign exchange translations, offset by new issuances within the period.

Fees payable by WNZL to the Company

The fees payable by WNZL to the Company are under review and may be adjusted to ensure arm's length pricing. Any such adjustment in fees may impact net interest income and/or non-interest income.

For further information on the financial performance and position of WNZL, refer to its most recent Disclosure Statement available on WNZL's website at www.westpac.co.nz.

Significant events during the six months ended 31 March 2023

There were no significant events during the six months ended 31 March 2023 not already disclosed in the WNZL disclosure statement dated 18 May 2023.

Risk factors

The Company's business activities are subject to risks that can adversely impact its business, future performance, and financial condition. As the Company is an indirect, wholly-owned subsidiary of WNZL, it is consequently affected by the same principal risks and uncertainties which affect WNZL. The principal risks and uncertainties that affect WNZL are set forth below. There are no additional material risk factors solely affecting the Company. If any of the following risks occur, the Company's business, prospects, reputation, financial performance or financial condition could be materially adversely affected, with the result being that the trading price of the Company's securities could decline. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems to be immaterial, may also become important factors that affect the Company.

For information concerning the Company's exposure to credit risk, market risk and liquidity risk, please refer to Note 9 and Note 15 of the 'Notes to the financial statements' included in the Annual Report for the year ended 30 September 2022.

Risks Relating to WNZL's Business and Industry

WNZL faces information security risks and breaches, including cyberattacks.

WNZL (and its external service providers) is subject to information security risks. These risks are heightened by:

- new technologies and increased digital service options;
- increased use of the internet and telecommunications to conduct financial transactions;
- the growing sophistication of attackers, and the global increase in cyber crime;
- the shift to flexible working from home arrangements, which have resulted in many WNZL employees (and staff of service providers) and customers working remotely or from other sites;
- ongoing geopolitical tensions associated with the Russia-Ukraine conflict; and
- other external events such as biological hazards, climate change, natural disasters or acts of terrorism which could interrupt the usual operations of WNZL, its customers, suppliers and counterparties, potentially providing increased opportunities for cyber threat actors to exploit.

These risks could result in information security risks such as cyberattacks, espionage and/or errors happening at an unprecedented pace, scale and reach. Cyberattacks have the potential to cause financial system instability and could result in serious disruption to customer banking services, or compromise data privacy of customers, employees and others.

While WNZL has systems in place to protect against, detect and respond to cyberattacks, these systems have not always been, and may not always be, effective. For example, the Log4j cybersecurity breach was a serious, worldwide event, with significant implications on servers if a cyber attacker were to breach WNZL's systems, or those of a key supplier. WNZL, its customers, employees, suppliers, counterparties or others could suffer losses from cyberattacks, information security breaches or ineffective cyber resilience.

Management report (continued)

WNZL may not be able to anticipate and prevent a cyberattack, effectively respond to a cyberattack and/or rectify or minimise damage resulting from a cyberattack. WNZL's suppliers and counterparties, and other parties that facilitate WNZL's activities, financial platforms and infrastructure (such as payment systems and exchanges) are also subject to the risk of cyberattacks, which could in turn impact WNZL.

If WNZL or a key supplier is subject to a successful cyberattack, technology systems might fail to operate properly or become disabled, which could result in the unauthorised release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of WNZL, its employees, customers or third parties or otherwise adversely impact WNZL's network access, business operations or availability of services.

In addition, as cyber threats continue to evolve, WNZL may be required to expend significant additional resources to modify or enhance its systems or to investigate and remediate any vulnerabilities or incidents.

WNZL's operations rely on the secure processing, storage and transmission of information on its computer systems and networks, and the systems and networks of external suppliers. Although WNZL implements measures to protect the confidentiality and integrity of its information, there is no guarantee that these measures will be effective. The computer systems, software and networks on which WNZL and WNZL's customers, employees, suppliers, counterparties or others rely may be subject to security breaches, unauthorised access, malicious software, external attacks or internal breaches which could have an adverse impact on WNZL's and the aforementioned parties' confidential information.

A range of potential consequences could arise for WNZL from a successful cyberattack, such as:

- damage to technology infrastructure;
- disruptions or other adverse impacts to network access, operations or availability of services;
- loss of customers and market share or reputational damage;
- loss of data or information;
- customer remediation and/or claims for compensation;
- breach of applicable privacy laws or data protection regulations (including reporting obligations);
- increased vulnerability to fraud and scams;
- litigation and adverse regulatory action including fines or penalties and increased regulatory scrutiny; and
- increased need for significant additional resources to modify or enhance WNZL's systems or to investigate and remediate any vulnerabilities or incidents.

All these potential consequences could have regulatory impacts and negatively affect WNZL's business, prospects, reputation, financial performance or financial condition. As cyber threats evolve, WNZL may need to spend significant resources to modify or enhance its systems or investigate and remediate any vulnerabilities or incidents.

Adverse credit and capital market conditions or depositor preferences may significantly affect WNZL's ability to meet funding and liquidity needs and may increase its cost of doing so.

WNZL relies on deposits, money markets and credit and capital markets to fund its business, including to source funding and liquidity. WNZL may also need to rely on such sources of funding in the future to comply with regulatory capital requirements. The price of and availability to WNZL of funding, liquidity and regulatory capital are related to funding market conditions.

Funding markets can be unpredictable and experience extended periods of extreme volatility, disruption and decreased liquidity. Economic risks facing WNZL include damage to market confidence, changes to the access and cost of funding, a slowing in global economic activity, unexpected withdrawal or lack of availability of extraordinary central bank monetary policy stimulus and other or related impacts on customers or counterparties. High inflation and related interest rate increases have increased and could further increase funding costs and may lead to counterparties defaulting on their debt obligations, countries re-denominating their currencies and/or introducing capital controls and/or significant economic disruption in one or more major economies. While difficult to predict, such events could destabilise global financial markets, adversely affecting all participants, including WNZL.

A shift in investment preferences could result in deposit withdrawals or a reduction in new deposit volumes which may increase WNZL's need for funding from other, potentially less stable, or more expensive sources. If market conditions deteriorate due to economic, financial, political, geopolitical, regulatory, fiscal or monetary policy or other reasons (including as a result of any volatility arising from liquidity issues with certain financial institutions in the US and Europe), there may be a loss of confidence in bank deposits leading to unexpected deposit withdrawals or a reduction in new deposit volumes which may increase WNZL's need for funding from other, potentially less stable, or more expensive sources. These events can transpire quickly and be exacerbated by information transmission on social media. This could increase funding costs, constrain WNZL's liquidity, funding and lending activities, and/or threaten WNZL's financial solvency. In such events, even robust levels of capital may not be sufficient to safeguard WNZL against detrimental loss of funding.

If WNZL's current sources of funding prove to be insufficient, WNZL may need to seek alternatives which will depend on factors such as market conditions, credit ratings and market capacity. Even if available, these alternatives may be more expensive or on unfavourable terms, which could adversely affect WNZL's financial performance, liquidity, capital resources or financial condition.

If WNZL is unable to source appropriate funding, it may be forced to reduce lending or liquidity. This may adversely impact WNZL's business, prospects, liquidity, capital resources, financial performance and financial condition. If WNZL is unable to source appropriate funding for an extended period, or if it can no longer realise liquidity, WNZL may not be able to pay its debts as and when they fall due, meet regulatory requirements or meet other contractual obligations.

WNZL enters into collateralised derivative obligations, which may require WNZL to post additional collateral based on market movements, which has the potential to adversely affect WNZL's liquidity or ability to use derivative obligations to hedge its interest rate, currency and other financial instrument risks.

Management report (continued)

WNZL could be adversely affected by inadequate capital levels under stressed conditions.

WNZL is subject to the risk of an inadequate level or composition of capital to support normal business activities and to meet regulatory capital requirements under normal operating environments or stressed conditions, and to maintain its solvency. Even robust levels of capital may not be sufficient to ensure the ongoing sustainability of WNZL in the event of unexpected deposit withdrawals.

The implementation of updated capital and risk-weighted assets ('**RWA**') regulations which came into effect on 1 October 2021 has led banks in New Zealand to hold increased amounts of capital. Banks in New Zealand are also required to increase the amounts of capital held over time. Capital constraints could have an adverse impact on WNZL's ability to pay future dividends or make capital distributions. Adverse conditions and/or adverse regulatory changes could impact WNZL's capital adequacy and/or trigger capital distribution constraints, require WNZL to raise more capital or threaten its financial viability.

Sovereign risk may destabilise financial markets adversely.

Sovereign risk is the risk that governments will default on their debt obligations, fail to perform contractual obligations or be unable to refinance their debts as they fall due. Potential sovereign contractual defaults, sovereign debt defaults and the risk that governments will nationalise parts of their economy including assets of financial institutions such as WNZL may negatively impact the value of WNZL's holdings of liquid and other assets, including loans. Such an event could destabilise global financial markets, adversely affecting WNZL's liquidity, financial performance or financial condition. There may also be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the Global Financial Crisis.

WNZL could be adversely affected by the failure to maintain its credit ratings.

Credit ratings are independent opinions on WNZL's creditworthiness. WNZL's credit ratings can affect the cost and availability of its funding and may be important to certain customers or counterparties when evaluating WNZL's products and services.

Credit ratings assigned to WNZL by rating agencies are based on an evaluation of several factors; macro factors (such as the structure of New Zealand's financial system, the economy and New Zealand's sovereign credit rating), WNZL specific factors (such as its financial strength, the quality of its governance and management of risk), and factors related to Westpac Banking Corporation ('**WBC**'), including a change in a rating agency's assessment of the likelihood of WNZL receiving support from WBC, and the credit rating of WBC. WNZL's issuer credit rating receives an uplift from the rating agency's assessment of the likelihood of WNZL receiving support from WBC and therefore WBC's credit rating. As a subsidiary of WBC, WNZL's credit rating cannot exceed that of WBC. It may, however, be equal to (as currently the case with S&P Global Ratings and Fitch Ratings) or lower than (as currently the case with Moody's Investors Service) WBC's rating.

A rating downgrade could be driven by a downgrade of New Zealand's sovereign credit rating, a downgrade of WBC's credit rating, an assessment that support from WBC has weakened due to one or more of the risks identified in this section, by a deterioration in WNZL's financial position or by other events including the sale or disposal of WNZL by WBC, or changes to credit rating methodologies.

A credit rating or rating outlook may also be downgraded or revised if a credit rating agency believes there is a high probability that a company's key rating factors could be impacted by significant events (such as a pandemic).

A downgrade to WNZL's credit ratings would likely have an adverse effect on its cost of funds, sourcing of regulatory capital, collateral requirements, liquidity, competitive position, its access to capital markets and its financial stability. Any such downgrade may also impact WNZL's funding programs by requiring WNZL to carry out additional operational activities or could result in the replacement of WNZL as a provider of certain services, which may ultimately impact the ratings of the securities issued by WNZL under such programs.

The extent and nature of these impacts would depend on various factors, including the extent of any rating change, differences across agencies (split ratings) and whether competitors or the sector are also impacted.

WNZL's business is substantially dependent on the New Zealand economy and those of its key trading partners, including China and Australia, and could be adversely affected by a shock to these economies, including as a result of the Russia-Ukraine conflict, deteriorating international relations with China, or by changes in monetary policies.

WNZL's revenues and earnings are dependent on domestic and international economic activity, business conditions and the level of financial services its customers require. Most of WNZL's business is conducted in New Zealand, and therefore its performance is influenced by the level and cyclical nature of activity in New Zealand. The financial services industry and capital markets have been, and may continue to be, adversely affected by volatility (including as a result of any volatility arising from liquidity issues with certain financial institutions in the US and Europe), global economic conditions (including inflation and rising interest rates), the COVID-19 pandemic, external events, geopolitical instability, political developments or a major systemic shock.

The Russia-Ukraine conflict is ongoing and highly uncertain, and is expected to continue to have significant ramifications on the geopolitical and economic landscape, with commodity prices, in particular energy, food and metals, already impacted and the future impacts and duration of the conflict remain uncertain. The extent and duration of the conflict and any corresponding economic sanctions, export controls and similar restrictions in addition to those already imposed and resulting market disruptions are difficult to predict. Although WNZL does not operate in Russia or Ukraine, the conflict has the potential to adversely impact the markets in which WNZL does operate, or on the financial position of its customers who transact in Russia or Ukraine, especially if the conflict escalates. Any prolonged market volatility, inflationary pressure or economic uncertainty resulting from the Russia-Ukraine conflict could adversely impact WNZL's financial condition and performance.

Market and economic disruptions may cause consumer and business spending to decrease, unemployment to rise and demand for WNZL's products and services to decrease, thereby reducing its earnings. These events could also undermine confidence in the financial system, reduce liquidity, impair access to funding and adversely affect WNZL's customers and counterparties. If any such event were to occur, WNZL's business, prospects, financial performance or financial condition may be adversely affected. In addition, any significant decrease in housing and commercial property valuations may adversely impact lending activities, possibly leading to higher credit losses.

Due to the economic relationship between New Zealand/Australia and China, particularly in the mining, resources and agricultural sectors, a slowdown in China's economic growth or changes in government policies (including the adoption of protectionist trade measures or sanctions, or an escalation of international conflicts) could negatively impact the New Zealand economy. This could result in a reduced demand for WNZL's products and services and affect the level of economic activity and the ability of WNZL's borrowers to repay their loans.

Monetary policy can significantly impact WNZL and the economic conditions of the jurisdictions WNZL operates or obtains funding in. Interest rate settings (including low or negative rates or increasing interest rates) and other actions taken by central banks (such as quantitative easing and tightening) may adversely affect WNZL's cost of funds, the value of WNZL's lending and investments and WNZL's margins. These policies may affect demand for WNZL's products and services and/or have a negative impact on WNZL's customers and counterparties, potentially increasing the risk that it will default.

All these factors may adversely affect WNZL's business, prospects, financial performance or financial condition. The nature and consequences of any such event are difficult to predict and there is a risk that WNZL's response may be ineffective.

Management report (continued)

Declines in asset markets could adversely affect WNZL's operations or profitability.

Declines in New Zealand residential and commercial property markets, or other asset markets, including equity, have adversely affected, and could in the future adversely affect, WNZL's operations and profitability.

Declining asset prices could also impact customers and counterparties and the value of security (including residential and commercial property) WNZL holds. This may impact its ability to recover amounts owing to it if customers or counterparties default. It may also affect WNZL's impairment charges and provisions, in turn impacting WNZL's financial performance and financial condition.

A weakening of the real estate market in New Zealand could adversely affect WNZL.

Loans secured by residential mortgages are important to WNZL's business. As at 31 March 2023, housing loans represented approximately 66% of WNZL's gross loans (as defined herein) and advances (30 September 2022: 66% and 30 September 2021: 65%).

WNZL's housing loan business previously has been, and in the future may be, affected by decreasing property values and a decrease in the volume of transactions. A significant or sustained decrease in property valuations in New Zealand may cause losses in WNZL's existing portfolio of housing loans and/or decrease the amount of new housing loans WNZL is able to originate, which could materially and adversely affect WNZL's financial condition and performance. The demand for property may also be impacted by inflation and rising interest rates, which may also adversely impact property valuations and/or the volume of transactions. Recent buyers with limited equity are particularly vulnerable to house price declines. Furthermore, a large fall in house prices would significantly reduce housing wealth and could lead to a contraction in consumer spending, especially when combined with borrowers cutting back discretionary spending due to rising interest rates and higher living costs.

There has been a significant rise in inflation pressures. Consumer prices rose 7.3% over the twelve months to June 2022, reducing to a 6.7% increase over the twelve months to March 2023. As of the May 2023 Budget, the New Zealand Government expects the inflation rate to fall to 4.5% by the end of 2023 and to drop within the RBNZ's target band of 1 to 3% by late 2024. Some of these price pressures are expected to be temporary, but when combined with historically low unemployment and capacity constraints, there is a risk that they could lead to more persistent increases in domestic wages and prices which could exacerbate consumer price inflation. In this environment, higher interest rates than currently anticipated could make it even harder for households to service their mortgages.

After reducing the Official Cash Rate (the '**OCR**') to 0.25% in March 2020, the RBNZ began to increase it from October 2021. In May 2023, the RBNZ increased the OCR to its previously projected peak of 5.50% and signalled it would maintain it at this level before reducing it again in the third quarter of 2024. Higher interest rates and lower house prices are expected to dampen consumer demand over 2023.

The residential property market in New Zealand is subject to increased regulatory scrutiny. For example, after directions from the New Zealand Government to the RBNZ to consider the impact of its actions on the Government's policy of supporting more sustainable house prices, the RBNZ reinstated loan-to-value ratio ('**LVR**') restrictions on both owner-occupiers and investors in March 2021, with a further tightening for new investor loans occurring in May 2021 (to limit new loans of more than 60% of the property's value to no more than 5% of each bank's new lending) and for new owner-occupier loans occurring in November 2021 (to limit new loans of more than 80% of the property's value to no more than 10% of each bank's new lending). In May 2023, the RBNZ confirmed that it would relax these controls from June 2023, by shifting from a 10% limit to a 15% limit for loans with LVR above 80% for owner occupiers, and by shifting from a 5% limit for loans with LVR above 60% for investors to a 5% limit for loans with LVR above 65% for investors. The RBNZ has also designed a framework for operationalising debt-to-income ('**DTI**') restrictions, in consultation with the industry and other stakeholders. The LVR restrictions currently in place and the potential DTI restrictions, which remain subject to implementation, may result in a decrease in demand for and approval of WNZL's residential loan products, and adversely impact the property values.

A weakening real estate market also exposes us to the following risks:

- commercial property assets could be impacted by weakening tenancy credit profiles and increasingly volatile property cash flows from lease renewals at lower rates, rental abatements, increased incentives and tenancy defaults impacting serviceability and increasing refinance risk, particularly as financial incentives provided by the New Zealand Government in response to the COVID-19 pandemic end;
- declining asset prices could impact customers, counterparties and the value of the security (including residential, commercial and rural property) WNZL holds against these loans, impacting WNZL's ability to recover amounts owed if customers or counterparties were to default. Valuations could be impacted by the combined effect of reductions in rental income and softening in yields (risk adjusted returns and implicit rental growth);
- declining demand for WNZL's residential lending products due to buyer concerns about decreases in values may make its lending products less attractive to potential homeowners and investors. In the case of residential loans, customers with high levels of leverage could show a higher propensity to default, and in the event of such defaults the decrease in security values may cause WNZL to incur higher credit losses, which may adversely affect WNZL's financial condition;
- liquidity concerns as existing loans are refinanced or new loans are financed within existing senior lending risk appetite parameters but against lower valuations, creating a need for additional equity contributions from owners or developers or alternative sources of funding. This creates an additional cash flow risk for borrowers and the potential for non-bank financiers to disintermediate; and
- a material decline in residential housing prices may also cause losses in WNZL's residential development portfolio if purchasers who pre-committed to purchase these properties from WNZL customers are unable or unwilling to complete their contracts, the WNZL customer defaults and WNZL re-sells these properties at less than the contracted price.

An increase in credit defaults could adversely affect WNZL's liquidity, capital resources, financial performance or financial condition.

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations to WNZL. It is a significant risk and arises primarily from WNZL's lending activities.

WNZL establishes provisions for credit impairment based on current information and WNZL's expectations. If economic conditions deteriorate, including, without limitation, as a result of inflation and increases in market interest rates, some customers and/or counterparties could experience higher financial stress leading to an increase in defaults and write-offs, and a need for higher provisioning. Such events could adversely affect WNZL's liquidity, capital resources, financial performance or financial condition.

Credit risk also arises from certain derivative and settlement contracts WNZL enters into, and from its dealings in, and holdings of, debt securities issued by other institutions, the financial conditions of which may be affected to varying degrees by economic conditions in global financial markets.

WNZL faces intense competition in all aspects of its business.

The financial services industry in New Zealand is highly competitive. WNZL competes with a range of firms, including retail and commercial banks, investment banks, other financial service companies, fintech companies and businesses in other industries with financial services aspirations. This includes some competitors who are not subject to the same capital and regulatory requirements as WNZL, which may allow those competitors to operate differently.

Management report (continued)

Emerging competitors are increasingly altering the competitive environment by adopting new business models or seeking to use new technologies to disrupt existing business models.

The competitive environment may also change as a result of increased scrutiny by regulators in the sector, and legislative reforms such as 'Open Banking' (proposals to create a standardised and secure framework for sharing bank customer data with trusted financial service providers, such as technology companies), which will stimulate competition, improve customer choice and likely give rise to increased competition from new and existing firms.

Competition in the various markets in which WNZL operates has led and may continue to lead to a decline in WNZL's margins or market share.

Deposits fund a significant portion of WNZL's balance sheet and have been a relatively stable source of funding. If WNZL is not able to successfully compete for deposits, this could increase WNZL's cost of funding, thereby requiring WNZL to use other types of funding or reduce its lending.

WNZL's ability to compete depends on its ability to offer products and services that meet evolving customer preferences and expectations. Not responding to changes in customer preferences and expectations could cause WNZL to lose customers. This could adversely affect WNZL's business, prospects, financial performance or financial condition.

WNZL could suffer losses due to market risks, including volatility.

Market risk is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book ('**IRRBB**'), the risk to interest income due to a mismatch between the duration of assets and liabilities arising from the normal course of business activities. WNZL is exposed to market risk through asset and liability management.

Changes in markets could be driven by numerous developments resulting in market volatility which may lead to substantial losses. This may adversely affect WNZL's business, prospects, liquidity, ability to hedge exposures, capital resources, financial performance or financial condition.

The cessation of parts of the London Interbank Offered Rate ('**LIBOR**') regime from 1 January 2022, continuation of some US Dollar LIBOR settings until 30 June 2023 and possible pre-cessation events will also continue to impact market pricing. Industry pressure to migrate to alternative reference rates is likely to occur earlier. Any future changes in the administration of LIBOR or other market benchmarks could have adverse consequences for the return on, value of and market for securities and other instruments linked to any such benchmark, including securities or other instruments issued by WNZL.

WNZL has suffered and could suffer losses due to operational risks.

Operational risk includes, among other things, technology risk, model risk and outsourcing risk, as well as the risk of business disruption due to external events such as natural disasters, or outbreaks of communicable diseases, environmental hazards, damage to critical utilities and targeted activism and protest activity. While WNZL has policies, processes and controls in place to manage these risks, these have not always been, or may not currently be effective.

Ineffective processes and controls have resulted in, and could result in, adverse outcomes for WNZL's customers. For example, a process breakdown or a failure to have appropriate product governance and monitoring processes in place could result in a customer not receiving a product on the terms, conditions, or pricing they agreed to, potentially to the detriment of the customer. Failed processes could also result in WNZL incurring losses because it cannot enforce its expected contractual rights, which could occur if WNZL does not correctly document its rights or fails to perfect a security interest. These types of operational failures may result in financial losses, customer remediation, increased regulatory scrutiny and intervention and, depending on the nature of the failure, result in class action proceedings or regulatory investigations and/or other actions.

WNZL has incurred, and could in the future incur, losses from fraudulent applications for loans or from incorrect or fraudulent payments and settlements. Fraudulent conduct can also arise from external parties seeking to access WNZL's systems or customer accounts. If systems, procedures and protocols for managing fraud fail, or are ineffective, they could lead to losses which could adversely affect WNZL's customers, business, prospects, reputation, financial performance or financial condition.

WNZL is also exposed to model risk, being the risk of loss if the models used by WNZL produce incorrect outputs or that WNZL applies a fundamentally sound model to an ill-suited domain.

Financial services entities have been increasingly sharing data with third parties, such as suppliers and regulators, to conduct their business and meet regulatory obligations. Such third parties can give rise to, and are themselves subject to, a variety of risks, including financial crime compliance, information security, cyber, privacy, regulatory compliance, reputation, environmental and business continuity risks. Failures by these third parties to manage these risks could by extension have a material adverse effect on WNZL's reputation, operations and financial condition.

WNZL also relies on third-party contractors and suppliers, both in New Zealand and overseas, to provide services to it and its customers. A failure by WNZL to manage and oversee the services these third-party contractors and suppliers should provide as required could disrupt WNZL's ability to provide its products and services and adversely impact its operations, financial performance or reputation.

WNZL is also exposed to risk through delivery of regulatory and technology programs, including the risk that such programs fail to deliver the desired goals, or fail to reduce, pre-empt, mitigate and manage the challenges associated with transformation or lead to further regulatory scrutiny.

WNZL could also experience operational disruption if central banks were to adopt negative interest rates as the technology systems used by WNZL, its counterparties and/or financial infrastructure providers may not operate correctly, which could cause loss or damage to WNZL and/or its counterparties.

Poor data quality and records management could adversely affect WNZL's business and operations.

Accurate, complete and reliable data, along with appropriate data control, retention and access frameworks and processes, are critical to WNZL's business. Data plays a key role in how WNZL provides products and services to customers, WNZL's systems, WNZL's risk management framework and WNZL's decision-making and strategic planning.

In some areas of WNZL's business, WNZL is affected by poor data quality. This has occurred and could arise in the future in a number of ways, including through inadequacies in systems, processes and policies, or the ineffective implementation of data management frameworks.

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Poor data quality may lead to poor customer service, negative risk management outcomes, and deficiencies in credit systems and processes. Any deficiency in credit systems and processes could, in turn, have a negative impact on WNZL's decision making in the provision of credit and the terms on which it is provided. WNZL also needs accurate data for financial, regulatory and other reporting.

Poor data or poor records management has affected, currently affects and may in the future continue to affect WNZL's ability to monitor its business, comply with production notices, respond to regulatory notices and conduct remediation.

In addition, poor data or poor data retention, and control gaps and weaknesses have affected, currently affects and may in the future continue to affect WNZL's ability to meet its compliance obligations (including its regulatory reporting obligations) which could lead to a regulator taking action against WNZL.

Due to the importance of data, WNZL has incurred and will likely continue to incur substantial costs and devote significant effort to improving the quality of data, data frameworks and processes and remediating deficiencies where necessary.

The consequences and effects arising from poor data quality or poor data retention could have an adverse impact on WNZL's business, operations, prospects, reputation, financial performance and/or financial condition.

Operational risk, technology risk, conduct risk or compliance risk events could require WNZL to undertake customer remediation activity.

Breakdowns in WNZL's processes, procedures and controls have led to, and could in the future lead to, adverse outcomes for customers, employees or other third parties which WNZL has been, or will be, required to remediate. These breakdowns may result from the realization of operational, technology, conduct or compliance risks.

WNZL has, on a number of occasions, incurred significant remediation costs (including compensation payments and costs of correcting the issue) and there is a risk that similar or new issues will arise or be identified in the future requiring remediation.

There are significant challenges and risks involved in customer remediation activities. WNZL's ability to investigate the underlying issue could be impeded if the issue is old and occurred beyond WNZL's record retention period, or WNZL records are inadequate. It may also be difficult and take significant time to properly quantify and design a remediation activity.

Determining how to compensate customers, employees or third parties properly and fairly can also be complicated, involving numerous stakeholders. WNZL's proposed approach to a remediation may be affected by a number of events, such as affected customers commencing a class action, or a regulator requiring a remediation to be done in a specific way or within a specific timeframe. These factors could delay WNZL in completing the remediation and may lead to a regulator commencing enforcement action against WNZL. In turn, this could result in increased reputational risk, and WNZL could be challenged by regulators, affected customers, the media and other stakeholders.

The significant challenges involved in designing and executing remediations also create a risk that the remediation costs incurred will be higher than initially estimated. Further, delays in completing a remediation could result in WNZL incurring additional administration costs and making higher remediation payments to customers to reflect the time value of money. If WNZL cannot effectively design, quantify, implement or complete a remediation activity in a timely way, there could be an adverse impact on WNZL's business, prospects, reputation, financial performance or financial condition which could lead to further regulatory action and/or oversight. Remediation programs may not prevent regulatory action, litigation (including class actions) or other proceedings from being pursued, or sanctions being imposed.

WNZL has suffered, and in the future could suffer losses, and be adversely affected by the failure to implement effective risk management.

WNZL's risk management framework has not always been, or may not in the future prove to be, effective, and the resources WNZL has in place for identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating material risks may not always be adequate.

There is a risk that WNZL's risk management framework and key risk management policies, controls and processes may be ineffective or inadequately designed, or suffer from technology failures or incomplete implementation or embedment. The potential for these types of failings is heightened if WNZL does not have or cannot obtain enough appropriately skilled, trained and qualified people in key positions or does not have sufficient capacity, including people, processes and technology, to appropriately manage risks.

There are also inherent limitations with any risk management framework, as risks may exist, or emerge in the future, that WNZL has not anticipated or identified, and its controls may not be effective.

The risk management framework may also prove ineffective because of weaknesses in risk culture or risk governance practices and policies, which may result in risks and control weaknesses not being identified, escalated and acted upon. Recent analysis and reviews, in addition to regulatory feedback, have highlighted that the framework is not operating satisfactorily in a number of respects and needs to be improved. WNZL has a number of risks which have been, are currently, or may in future become out of appetite, or do not meet the expectations of regulators.

Further, the design or operation of WNZL's remuneration structures may not always encourage prudent risk management as intended, potentially resulting in staff engaging in excessive risk-taking behaviours.

As part of WNZL's risk management framework, WNZL measures and monitors risks against its risk appetite. If a risk exceeds acceptable levels, WNZL may not always be able to achieve mitigation or institute effective improvements within proposed timeframes. This may occur because, for example, WNZL experiences delays in enhancing its information technology systems or in recruiting sufficient numbers of appropriately trained staff for required activities. It is also possible that due to external factors beyond WNZL's control, certain risks may necessarily exceed WNZL's acceptable limits for periods of time. WNZL is required to periodically review its risk management framework to determine if it remains appropriate.

If WNZL is unable to sufficiently mitigate risks, or if it is determined that WNZL's risk management framework or risk governance practices and policies are no longer appropriate, WNZL may incur unexpected losses and be required to undertake considerable remedial work, including incurring substantial costs. The failure to remedy this situation could result in further increased scrutiny from regulators, who could require (amongst other things) that WNZL hold additional capital or direct WNZL to spend money to enhance its risk management systems and controls.

Weaknesses in risk management systems and controls may result in regulatory action. Banks registered under the Banking (Prudential Supervision) Act 1989 of New Zealand (the '**Prudential Supervision Act**') operating under the supervision of the RBNZ, are subject to certain conditions of registration imposed by the RBNZ. In this Management report, 'Conditions of Registration' refers specifically to WNZL's Conditions of Registration. For further information, please see the Conditions of Registration in the 2022 Disclosure Statement.

From 31 March 2021, as a result of WNZL's non-compliance with the RBNZ's liquidity policy ('**BS13**'), the RBNZ amended WNZL's Conditions of Registration requiring WNZL to discount the value of its liquid assets by approximately 14%. From 15 August 2022, the RBNZ reduced the overlay quantum to approximately 7%, which at 31 March 2023 was $1.7 billion. The overlay will remain in place until the RBNZ is satisfied that control assurance work has been completed.

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If any of WNZL's governance or risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, as has occurred, WNZL could be exposed to higher levels of risk than expected which may result in unexpected losses, breaches of compliance obligations, imposition of further capital requirements, and reputational damage, each of which could adversely affect WNZL's business, prospects, financial performance or financial condition.

WNZL's failure to recruit and retain key executives, employees and Directors may have adverse effects on its business.

Key executives, employees and Directors play an integral role in the operation of WNZL's business and its pursuit of its strategic objectives. The unexpected departure of an individual in a key role, or WNZL's failure to recruit and retain appropriately skilled and qualified persons into these roles at all or in a timely manner, could each have an adverse effect on WNZL's business, prospects, reputation, financial performance or financial condition.

In addition, macro environmental factors such as low unemployment, limited migration levels due to pandemic border restrictions, on-shoring of work, new ways of working and the competitive talent market are all emerging risk factors, which may have a material adverse impact on WNZL.

Climate change may have adverse effects on WNZL's business.

There are significant uncertainties inherent in accurately identifying and modelling climate-related risks over short-, medium- and long-term time horizons and in assessing their impact on WNZL's business.

WNZL, its customers, suppliers and communities in which WNZL operates have been and may be adversely affected by the physical risks of climate change, including increases and variability in temperatures, changes in precipitation patterns, rising sea levels, loss of biodiversity and ecosystem degradation and the frequency and severity of adverse climatic events including fires, storms, floods and droughts. These effects, whether acute or chronic in nature, may directly impact WNZL, its suppliers and its customers through, for example disruptions to business and economic activity, inability to access insurance and impacts on income and asset values. Adverse impacts on WNZL's customers may negatively impact loan serviceability and security values, as well as WNZL's profitability. Adverse impacts on WNZL's suppliers may adversely affect WNZL's ability to conduct WNZL's business or the profitability of that business.

Initiatives to mitigate or respond to climate change may impact market and asset prices, economic activity, and customer behavior, particularly in emissions intensive industry sectors and geographies affected by these changes.

Further, climate-related litigation has become more common in recent years. Any failure or perceived failure by WNZL to manage climate change appropriately may increase this risk. Should WNZL be required to respond to these challenges, it could give rise to increased costs, reputational risk and additional disclosure requirements associated with such matters.

Changes in supervisory expectations of banks and other regulatory changes could directly impact WNZL. This includes the introduction of mandatory climate risk reporting for the financial sector in New Zealand from 2023 onwards. In addition, the RBNZ is committed to working directly with regulated entities on climate-related risk management, including stress testing and supervisory frameworks. The RBNZ is currently consulting on draft guidance for the management of climate-related risks, with final guidance expected in the second half of 2023. The RBNZ also began climate change risk assessments in 2022, with a flood risk assessment for residential mortgages in April 2022 and an assessment of the impact of drought and emissions pricing on agricultural loan books expected in the third quarter of 2023.

Failure to effectively manage and disclose direct and indirect climate-related risks including nature-related risks such as biodiversity loss and ecosystem degradation could adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

WNZL's most material climate-related risks result from its lending to customers, including credit-related losses incurred as a result of a customer being unable or unwilling to repay debt, or impacting the value and liquidity of security interests, which may adversely affect WNZL's financial condition. The risk to WNZL from credit-related issues with its customers could result directly from climate-related events, and indirectly from changes to laws, regulations, or other policies such as carbon pricing and climate risk adaptation or mitigation policies, which may adversely impact the customer's ability or willingness to meet their obligations to WNZL.

Additionally, the price of insurance for properties perceived to be at high risk from earthquake damage or susceptible to climate change risks, such as rising sea levels and coastal inundation and bushfires, is increasing. An increase in the price of insurance could result in a property owner not renewing a policy or additional exclusions from the policy, for example, natural hazard cover. Where either the premium cost is considered prohibitive or a property cannot be insured, this could result in a reduction in the security value of properties that WNZL holds as collateral and may give rise to credit related losses due to customers being unable or unwilling to repay debt following damage to their property, which may adversely affect WNZL's financial condition.

WNZL could suffer losses due to geopolitical risks, environmental factors or external events.

WNZL, its suppliers and its customers operate businesses and hold assets in a diverse range of geographic locations. Geopolitical risks, including those arising from conflicts, strategic competition, trade tension and/or the imposition of trade tariffs, sanctions, terrorist activity and acts of civil or international hostility, are increasing. Any significant environmental change or external event (including climate change, biodiversity loss and ecosystem degradation, drought, fire, storm, flood, earthquake, outbreaks or pandemics of communicable diseases such as the COVID-19 pandemic, civil unrest, war, heightened tension, terrorism or other geopolitical risks) in any of these locations has the potential to disrupt business activities and supply chains, damage property, affect asset values and impact WNZL's ability to receive goods or services from its suppliers or to recover amounts owing to it. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, price volatility in metals and other commodities, or the levels of volatility in financial markets, all of which could adversely affect WNZL's business, prospects, financial performance or financial condition.

In January 2023, Cyclone Gabrielle and severe flooding caused significant damage to homes and businesses on the North Island of New Zealand, including those of WNZL's customers. The adverse impacts of the cyclone and flooding on WNZL's customers, including physical property damage and reduced cash flow, could negatively impact WNZL's loan serviceability and security values, as well as profitability. These effects could also increase the probability of default and losses arising from defaults, and affect valuations and collateral as well as portfolio performance.

The high dependency of New Zealand's and the global economy on nature means a loss of biodiversity and ecosystem degradation present risks to WNZL, primarily through its exposure to customers in sectors and other industries that are materially dependent on biodiversity and ecosystem services. Biodiversity loss and ecosystem degradation can also contribute to, and be accelerated by, climate change.

Changes in critical accounting estimates and judgements could expose WNZL to losses.

WNZL is required to make estimates, assumptions and judgements when applying accounting policies and preparing its financial statements, particularly in connection with the calculation of provisions (including remediation and expected credit losses ('**ECL**')) and the determination of the fair value of financial instruments. A change in a critical accounting estimate, assumption and/or judgement resulting from new information or from changes in circumstances or experience could result in WNZL incurring losses greater than those anticipated or provided for.

If WNZL's actual and future credit losses exceed those currently provided for (as represented by ECL), it could cause an adverse effect on WNZL's financial performance, financial condition and reputation. WNZL's financial performance and financial condition may also be impacted by changes to accounting standards or to generally accepted accounting principles.

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WNZL could suffer losses due to impairment of capitalised software, goodwill and other intangible assets that may adversely affect its business, operations or financial condition.

In certain circumstances, WNZL may incur a reduction in the value of intangible assets. As at the balance date, WNZL's intangible assets principally relate to goodwill recognised on acquisition, capitalised software and other capitalised expenses.

WNZL is required to assess the recoverability of goodwill and other intangible asset balances at least annually or wherever an indicator of impairment exists. For this purpose, WNZL uses a discounted cash flow calculation. Changes in the methodology or assumptions in calculations together with changes in expected cash flows, could materially impact this assessment. Estimates and assumptions used in assessing the useful life of an asset can also be affected by a range of factors including changes in strategy, changes in technology and regulatory requirements.

In the event that an asset is no longer in use, or its value has been reduced or its estimated useful life has declined, an impairment will be recorded, adversely impacting WNZL's financial performance.

Certain strategic decisions may have adverse effects on WNZL's business.

WNZL routinely evaluates and implements strategic decisions and objectives including diversification, innovation, divestment, acquisitions or business expansion initiatives.

Each of these activities can be complex, costly and may not proceed in a timely manner. For example, they may cause reputational damage, or WNZL may experience difficulties in completing certain transactions, separating or integrating businesses in the scheduled timeframe or at all, disruptions to operations, diversion of management resources or higher than expected transaction costs. Multiple divestments and/or acquisitions at the same time may intensify these risks.

Furthermore, approvals may be required from shareholders, regulators or other stakeholders in order to divest businesses and assets, and there is a risk that these approvals may not be received, or that the purchaser does not complete these transactions for other reasons. In addition, any failure by WNZL to successfully divest businesses or assets could result in interested parties taking action against WNZL. As a result, WNZL may not receive the anticipated business benefits or cost saving and WNZL could otherwise be adversely affected.

WNZL also acquires and invests in businesses. These transactions involve a number of risks and costs. A business WNZL invests in may not perform as anticipated or may ultimately prove to have been overvalued when the transaction was entered into. Operational, cultural, governance, compliance and risk appetite differences between WNZL and an acquired business may lead to lengthier and more costly integration exercises.

There are also risks involved in failing to identify, understand or respond effectively to changes in WNZL's internal factors or external business environment (including changes related to economic, geopolitical, inflationary, regulatory, technological, environmental, social and competitive factors). The realisation of such risks may have a range of adverse effects on WNZL, such as being unable to increase or maintain market share and placing pressure on margins and fees.

Any of these risks could have a negative impact on WNZL's business, prospects, reputation, engagement with regulators, financial performance or financial condition.

Reputational damage has harmed and could in the future harm WNZL's business and prospects.

Reputational risk arises where there are differences between stakeholders' current and emerging perceptions, beliefs and expectations and WNZL's past, current and planned activities, processes, performance and behaviours.

There are various potential sources of reputational damage, for example, where WNZL's actions cause, or are perceived to cause, a negative outcome for customers, shareholders, stakeholders or the community. Reputational damage could also arise from the failure to effectively manage risks, failure to comply with legal and regulatory requirements, enforcement or supervisory action by regulators, adverse findings from regulatory reviews, failure or perceived failure to adequately respond to community, environmental, social and ethical issues, failure of information security systems, technology failures and security breaches and inadequate record keeping, any of which may prevent WNZL from demonstrating that, or determining if, a past decision was appropriate at the time it was made.

WNZL's reputation may also be adversely impacted by the conduct of WBC, and any adverse impacts on WBC's reputation.

WNZL also recognises the potential reputational consequences (together with other potential commercial and operational consequences) of failing to appropriately identify, assess and manage environmental, social and governance-related risks such as climate change risk, human rights risk including customer vulnerability, modern slavery and child safety risk, or respond effectively to evolving standards and stakeholder expectations.

WNZL may suffer reputational damage where its conduct, practices, behaviours or business activities (or those of its staff) do not align with the evolving standards and expectations of the public or WNZL's customers, counterparties, regulators and/or other stakeholders. As these expectations may exceed the standard required in order to comply with the law, WNZL may incur reputational damage even where it has met its legal obligations.

WNZL's reputation could also be adversely affected by the actions of customers, suppliers, joint-venture partners, strategic partners or other counterparties.

Failure, or perceived failure, to address issues that could or do give rise to reputational risk has created, and could in the future create, additional legal risk, subject WNZL to regulatory investigations, regulatory enforcement actions, fines and penalties or litigation or other actions brought by third parties (including class actions) and the requirement to remediate and compensate customers and incur remediation costs or harm its reputation among customers, including prospective customers, investors and the market. This could adversely affect WNZL's business, prospects, financial performance or financial condition.

WNZL has suffered and could suffer further losses due to litigation (including class action proceedings).

WNZL has been and may, from time to time, be involved in legal proceedings (including class actions), regulatory actions or arbitration. Such litigation has been and could in the future be commenced by a range of plaintiffs, such as customers, employees, suppliers, counterparties and regulators.

In recent years, there has been an increase in class action proceedings brought against financial services companies, many of which have resulted in significant monetary settlements. The risk of class actions has been heightened by a number of factors, including regulatory enforcement, an increase in the number of regulatory investigations and inquiries, a greater willingness on the part of regulators to commence court proceedings, more intense media scrutiny and the growth of third-party litigation funding and other funding arrangements. Class actions commenced against peer banks could also lead to similar proceedings against WNZL.

In September 2021, class actions were launched against two of WNZL's competitors in New Zealand, in relation to alleged breaches of the Credit Contracts and Consumer Finance Act 2003 ('**CCCFA**'). The consequences of non-compliance with the CCCFA are uncertain but may include an inability to enforce relevant consumer credit contracts and related guarantees and, in some circumstances, the ability to recover or retain costs of borrowing and other fees in relation to certain credit contracts could be affected. These class action proceedings are at an early stage and it is not possible to predict their outcomes or whether they will lead to further proceedings, including against WNZL. WNZL has in the past failed to fully comply with CCCFA and it is likely failures will occur in the future.

Litigation (including class actions) may, either individually or in aggregate, adversely affect WNZL's business, operations, prospects, reputation or financial condition. This risk is heightened by increases in the severity of penalties for certain breaches of the law. Such matters are subject to many uncertainties and the outcome may not be predicted accurately. Furthermore, WNZL's ability to respond to and defend litigation may be adversely affected by inadequate record keeping.

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Depending on the outcome of any litigation, WNZL has been, and may in the future be, required to comply with broad court orders, including compliance orders, enforcement orders or otherwise pay significant damages, fines, penalties or legal costs.

There is a risk that the actual penalty or damages paid following a settlement or determination by a Court for any legal proceedings may be materially higher or lower than any relevant provision (where applicable) therefore or that any contingent liability may be larger than anticipated. This may occur in a range of situations including, for example, where the scope of litigation against WNZL is expanded by further claims or causes of action. There is also a risk that additional litigation or contingent liabilities arise, all of which could adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

WNZL could suffer losses due to technology failures or its inability to appropriately manage and upgrade its technology.

Maintaining the reliability, integrity and security of WNZL's information and technology is crucial to WNZL's business. While WNZL has a number of processes in place to preserve and monitor the availability and recovery of its information and technology systems, there is a risk that WNZL's information and technology systems might fail to operate properly or result in outages, including from events wholly or partially beyond WNZL's control.

If WNZL incurs a technology failure, it may fail to meet a compliance obligation (such as retaining records and data for a certain period), or WNZL's customers may be adversely affected, including through the inability for them to access WNZL's products and services, privacy breaches or the loss of personal data. This could result in reputational damage, remediation costs and a regulator commencing an investigation and/or taking action against WNZL. The use of legacy systems, as well as the work underway to upgrade WNZL's technological capabilities, may heighten the risk of a technology failure.

Following IT outages in 2020, WNZL engaged Deloitte Touche Tohmatsu ('**Deloitte**') to review and assess the outages and, using Deloitte's findings, established a technology resilience program and other initiatives to address technology resilience issues. However, more work is required to successfully implement these initiatives and to meet WNZL's expectations and those of the RBNZ, APRA and Financial Markets Authority New Zealand ('**FMA**'). This is expected to require significant ongoing resources, prioritisation and governance from WNZL, without which WNZL may not, and may not be able to, successfully address such issues. This may result in additional regulatory oversight in relation to technology if these issues are not addressed.

WNZL also needs to regularly renew and enhance its technology to deliver new products and services, comply with regulatory obligations and meet WNZL's customers' and regulators' expectations. Consequently, WNZL is constantly managing new technology projects. Failure to effectively implement any of these projects could result in cost overruns, reduced productivity, outages, operational instability, compliance failures, customer dissatisfaction, reputational damage and/or the loss of market share. This could place WNZL at a competitive disadvantage and adversely affect its business, prospects, financial performance or financial condition.

Legal and Regulatory Risks

WNZL's businesses are highly regulated and WNZL has been and could in the future be adversely affected by legal or regulatory change.

As a financial institution, WNZL is subject to detailed laws and regulations in each of the jurisdictions in which it operates or obtains funding. WNZL is also supervised by a number of different regulatory and supervisory authorities, including the RBNZ and the FMA, which have broad powers and oversight over WNZL's businesses and operations. WNZL is a subsidiary of WBC, which is subject to extensive prudential regulation (including in relation to its New Zealand business).

WNZL's business, prospects, reputation, financial performance and financial condition have been, and could in the future be, adversely affected by changes to or to the interpretation of law, regulation or policies, by supervisory activities and the expectations of its regulators. WNZL operates in an environment where there is increased regulation and scrutiny of financial services providers.

Regulatory change has in the past adversely affected, and has the ability to adversely affect in the future. WNZL's financial performance and financial condition.

Regulatory changes may also affect how WNZL operates and has altered the way it provides its products and services, for example, by requiring WNZL to change or discontinue certain offerings. Regulation could also limit WNZL's flexibility, require it to incur substantial costs, impact the profitability of its businesses, require WNZL to retain additional capital, result in it being unable to increase or maintain market share and/or create pressure on margins and fees.

Regulation impacting WNZL's business may not always be released in a timely manner before its date of implementation. Similarly, early announcements of regulatory change may not be specific and significantly differ from the final regulation. In those cases, WNZL may not be able to effectively manage its compliance design in the timeframes available. Further, increases in the volume of regulatory change being managed simultaneously has and will continue to create risk through challenging WNZL's ability to access required subject matter expertise and the execution risks associated with implementing simultaneous change.

Relevant governments or regulators could also revise their application or interpretation of regulatory policies, thereby impacting WNZL's business (such as macro-prudential limits on lending).

It is critical that WNZL manages regulatory change effectively. The failure to do so has resulted, and could in the future result, in WNZL not meeting its compliance obligations, the risks of which are set out below under 'WNZL has been and could be adversely affected by failing to comply with laws, regulations or regulatory policy'.

A failure to appropriately manage and implement regulatory change effectively, including by failure to implement effective processes to comply with new regulations, has resulted in, and could in the future result in, WNZL not meeting its compliance obligations. WNZL expects that it will continue to invest significantly in compliance and the management and implementation of regulatory change. Significant management attention, costs and resources may be required to update existing, or implement new, processes to comply with such regulatory changes. The availability of skilled personnel required to implement changes may be limited.

WNZL has been and could be adversely affected by failing to comply with laws, regulations or regulatory policy.

WNZL is responsible for ensuring that it complies with all applicable legal and regulatory requirements and binding industry codes of practice in the jurisdictions in which it operates or obtains funding, as well as meeting its ethical standards. WNZL is also supervised by a number of different regulatory and supervisory authorities, including the RBNZ and the FMA, which have broad powers and oversight over WNZL's businesses and operations. As a result, there may at any time be matters which may amount to failures to comply with laws, regulations or regulatory policy in the process of being reported to a regulator, under consideration by a regulator for materiality or liability assessment, or under consideration by a regulator to determine the appropriate regulatory response. The regulatory responses available in respect of a particular non-compliance will depend on the applicable regulatory framework and any response will, in most cases, involve the exercise of the regulator's discretion within the bounds of the applicable regulatory framework. Where available, regulatory and supervisory authorities may apply self-imposed enforcement guidelines or policies in its decision-making, which tend to include (amongst other matters) the use of enforcement in a manner that is proportionate to the seriousness of the non-compliance. For example, the RBNZ publication 'Enforcement Principles and Criteria' (which is not incorporated in this Management report by reference) provides that the application of its enforcement discretion should be risk-based, proportionate and transparent, and should include consideration of the seriousness of the conduct and efficacy of response.

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WNZL is subject to compliance and conduct risks. These risks are exacerbated by the increasing complexity and volume of regulation, including where WNZL interprets its obligations and rights differently to its regulators or a Court, tribunal or other body. The potential for this is heightened when regulation is new, untested or is not accompanied by extensive regulatory guidance.

WNZL's compliance management system is designed to identify, assess and manage compliance risk on an ongoing basis. However, this system has not always been, and may not always be, effective. Breakdowns have occurred, and may in the future occur, due to flaws in the design or implementation of controls or processes. This has resulted in, and may in the future result in, potential breaches of compliance obligations as well as poor customer outcomes which in turn have exposed, and may continue to expose, WNZL to litigation, penalties and remediation obligations. As reviews and change programs are progressed, compliance issues have been, and will likely continue to be, identified. In the six months ended 31 March, 2023, WNZL identified that components of its Open Bank Resolution ('**OBR**') implementation plan were non-compliant with WNZL's Conditions of Registration.

Conduct risk is the risk of failing to have behaviours and practices that deliver suitable, fair and clear outcomes for WNZL's customers and that support market integrity. Conduct risk could occur through the provision of products and services to customers that do not meet their needs or do not meet the expectations of the market, as well as the poor conduct of WNZL's employees, contractors, agents, authorised representatives and external services providers. This could occur through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), weaknesses in risk culture, corporate governance or organisational culture, poor product design and implementation and a failure to adequately consider customer needs or selling products and services outside of customer target markets. Conduct risk may include deliberate, reckless or negligent actions by such individuals that may result in the circumvention of WNZL's controls, processes and procedures. WNZL relies on its people to 'do the right thing' to meet its compliance obligations and abide by its Code of Conduct. Inappropriate or poor conduct by these individuals, such as not following a policy or engaging in misconduct, has resulted, and could result, in poor customer outcomes and a failure by WNZL to meet its compliance obligations.

While WNZL has frameworks, policies, processes and controls that are designed to manage the risks of poor conduct outcomes, these frameworks, policies, processes and controls have from time to time been, and may be, ineffective. This could result in financial losses (including incurring substantial remediation costs as a result of litigation by regulators and customers) and reputational damage, which could adversely affect WNZL's business, prospects, financial performance or financial condition.

WNZL's failure, or suspected failure, to comply with a compliance obligation has, in the past and may in the future, lead to regulatory review, claims brought by customers (including class actions), customer remediation, supervisory and enforcement action by regulators, litigation and reputational damage and could have an adverse effect on WNZL's ability to utilise its assets for funding or liquidity purposes.

WNZL has been and is currently subject to reviews by regulators, which are increasing in intensity.

Depending on the circumstances, regulatory reviews and investigations have in the past and may in the future result in a regulator taking administrative or enforcement action against WNZL and/or its representatives. Regulators have broad powers, and in certain circumstances, can issue directions to WNZL (such as a direction to take remedial action). Regulators could also pursue civil or criminal proceedings, seek substantial fines, civil penalties or initiate other enforcement outcomes. In addition, regulatory investigations may lead to adverse findings against Directors and management, including potential disqualification. For more on the administrative and enforcement powers and other remedial actions that could be taken by regulators.

Recent major events such as the COVID-19 pandemic and the conflict between Russia and Ukraine, have placed increased expectations on organisations such as WNZL to be well prepared in the event of similar disruptions in the future. As a result, regulators globally are expecting firms to enhance and maintain their resilience across their activities so that customers and all stakeholders are protected when disruption occurs. WNZL's failure to ensure that it meets such increased demands, and other commitments made to regulators, could increase the risk of a regulator taking action against WNZL.

The failure to comply with financial crime obligations has had and could have further adverse effects on WNZL's business and reputation.

WNZL is subject to anti-money laundering and counter-terrorism financing ('**AML/CFT**') laws, anti-bribery and corruption laws, economic and trade sanctions laws and tax transparency laws in New Zealand and other relevant jurisdictions (collectively, '**Financial Crime Laws**'). These laws can be complex, and, in some circumstances, impose a diverse range of obligations. As a result, regulatory, operational and compliance risks are heightened. For example, AML/CFT laws require WNZL and other regulated institutions to (amongst other things) undertake customer identification procedures, conduct ongoing and enhanced due diligence on customers, maintain and comply with an AML/CFT program and undertake ongoing risk assessments.

Financial Crime Laws also require WNZL to report certain matters and transactions to regulators (such as international funds transfer instructions, threshold transaction reports and suspicious matter reports) and ensure that certain information is not disclosed to third parties in a way that would contravene the 'tipping off' provisions in AML/CFT legislation. The failure to comply with some of these laws has had, and in the future could have, adverse impacts for WNZL. Potential or confirmed material breaches follow WNZL's internal disclosure process with WNZL's AML Compliance Officer as primary contact.

WNZL operates within a landscape that is constantly changing, particularly with the emergence of new payment technologies, increased regulatory focus on digital assets (e.g. cryptocurrency) and increasing reliance on economic and trade sanctions to manage issues of international concern. These developments bring with them new financial crime risks for WNZL (as well as other risks discussed in this Risk Factors section), which may require adjustments to WNZL's systems, policies, processes and controls.

In recent years there has been, and there continues to be, increased focus on compliance with financial crime obligations, with regulators globally commencing large-scale investigations and taking enforcement action for identified non-compliance (often seeking significant penalties). Further, due to WNZL's large number of customers and transaction volumes, the undetected failure or the ineffective implementation, monitoring or remediation of a system, policy, process or control (including a regulatory reporting obligation) has resulted, and could in the future result, in a significant number of breaches of AML/CFT or other financial crime obligations. This in turn could lead to significant financial penalties and other adverse impacts for WNZL, such as reputational damage.

While WNZL has systems, policies, processes and controls in place designed to manage its financial crime obligations (including reporting obligations), these have not always been, and may not in the future always be effective. This could be for a range of reasons, including, for example, a deficiency in the design of a control or a technology failure or a change in financial crime risks or types. WNZL's analysis and reviews, in addition to regulator feedback, have highlighted that WNZL's systems, policies, processes and controls are not always operating satisfactorily in a number of respects and require improvement.

WNZL continues to progress uplift and enhancement projects to strengthen areas of control weaknesses in its financial crime risk management program and to seek to rectify the management of this risk. In recent years, WNZL has increased dedicated financial crime risk expertise and resources to deliver the financial crime program of work.

With increased focus on financial crime, further issues requiring attention have been identified and may continue to be identified.

Management report (continued)

If WNZL fails to comply with these financial crime obligations, it could face regulatory enforcement action such as public formal warnings, litigation, significant fines, penalties and/or enhanced regulatory oversight. For example, previous enforcement action by the RBNZ against WBC has resulted in a public formal warning issued in August 2021 for WBC failing to meet its reporting obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the '**AML/CFT Act**'). The warning notes that WBC could face further action including civil or criminal financial penalties if it continues to engage in conduct which is non-compliant with the AML/CFT Act or fails to take the actions required by the RBNZ under the formal warning.

As a result of the current conflict between Russia and Ukraine, there is an unprecedented volume of sanctions being applied to Russia, and potentially other governments, by regulators around the globe. While many governments across the United States, Europe, Australia and New Zealand are largely united with regard to the intended sanctions targets, the nuances and specific restrictions are not fully aligned. Furthermore, many corporate institutions around the world are assessing their risk appetite regarding ongoing business activity with or in Russia or with Russian-owned entities. This has heightened the operational and compliance risks in navigating those transactions and dealings that are considered lawful, or within other counterparties' risk appetite. This situation is expected to continue for the medium term and to increase as the conflict in the region persists.

Failure to comply with Financial Crime Laws or meet the financial crime related expectations of international institutions providing funding or transactional services to WNZL, could result in such institutions ceasing the provision of such services to WNZL.

Wholesale funding

The wholesale funding base is diversified with respect to term, investor base, currency and funding instrument. WNZL and the Company maintain funding programmes for both short and long-term debt in several jurisdictions including New Zealand, Europe and the United States.

The following table sets forth the wholesale funding programmes of WNZL and the Company.

Markets	Issuer	31 March 2023 Programme Type	Programme Limit	Issuer	30 September 2022 Programme Type	Programme Limit
Euro market	WBC/ Company [1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion	WBC/ Company [1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion
Euro market	Company [1]	Programme for Issuance of Debt Instruments	US$10 billion	Company [1]	Programme for Issuance of Debt Instruments	US$10 billion
Euro market	Company [1]	Global Covered Bond Programme	€ 5 billion	Company [1]	Global Covered Bond Programme	€ 5 billion
United States	Company [1]	US Commercial Paper Programme	US$10 billion	Company [1]	US Commercial Paper Programme	US$10 billion
New Zealand	WNZL	Registered Certificate of Deposit Programme	No limit	WNZL	Registered Certificate of Deposit Programme	No limit
United States	WNZL	US Medium-Term Notes	US$10 billion	WNZL	US Medium-Term Notes	US$10 billion

(1) Notes issued by the Company (acting through its London branch) are guaranteed by WNZL.

Westpac Securities NZ Limited

Responsibility statement

The Board confirms that to the best of their knowledge:

1. the condensed interim financial statements have been prepared in accordance with New Zealand Equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* and also comply with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board; and
2. the interim management report includes a fair review of the information required by the Disclosure and Transparency Rules 4.2.7R of the United Kingdom Financial Conduct Authority.

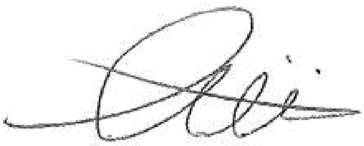
Westpac Securities NZ Limited

Directors' report

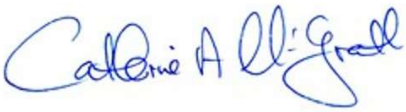
The Board is pleased to present the condensed interim financial statements of the Company comprising the interim management report, the condensed interim financial statements of the Company and the independent auditor's review report for the six months ended 31 March 2023.

The Board authorised these condensed interim financial statements on 2 June 2023.

For and on behalf of the Board:



Director
2 June 2023



Director
2 June 2023

Westpac Securities NZ Limited

Statement of comprehensive income for the six months ended 31 March 2023

	Note	Six months ended 31 March 2023 Unaudited $'000	Six months ended 31 March 2022 Unaudited $'000
Interest income - calculated using the effective interest method		**59,006**	41,279
interest income - other	3	**98,832**	6,561
Interest expense		**(155,105)**	(45,326)
Net interest income		**2,733**	2,514
Non-interest income		**291**	284
Total non-interest income		**291**	284
Net operating income		**3,024**	2,798
Impairment (charges)/benefits		**992**	(6,500)
Operating expenses		**(264)**	(258)
Profit/(loss) before income tax		**3,752**	(3,960)
Income tax benefit/(expense)		**(765)**	1,109
Net profit/(loss) for the period		**2,987**	(2,851)
Other comprehensive income (net of tax)		**-**	-
Total comprehensive income/(loss) for the period		**2,987**	(2,851)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet as at 31 March 2023

	Note	31 March 2023 Unaudited $'000	30 September 2022 Audited $'000
Assets			
Cash and cash equivalents		**10,634**	10,830
Receivables due from related entities		**16,970,092**	17,673,963
Current tax asset		**146**	441
Other assets		**166**	-
Total assets		**16,981,038**	17,685,234
Liabilities			
Payables due to related entities		**17,454**	25,890
Debt issues	2	**16,928,580**	17,619,103
Other financial liabilities		**24,873**	32,579
Total liabilities		**16,970,907**	17,677,572
Net assets		**10,131**	7,662
Shareholder's equity			
Share capital		**651**	651
Retained profits		**9,480**	7,011
Total shareholder's equity		**10,131**	7,662

The above balance sheet should be read in conjunction with the accompanying notes.

Westpac Securities NZ Limited

Statement of changes in equity for the six months ended 31 March 2023

		Attributable to owners of the Company		
		Share Capital	**Retained Profits**	**Total**
	Note	**$'000**	**$'000**	**$'000**
As at 30 September 2021 (Audited)		651	13,237	13,888
Six months ended 31 March 2022 (Unaudited)				
Net profit/(loss) for the period		-	(2,851)	(2,851)
Total comprehensive income for the six months ended 31 March 2022		-	(2,851)	(2,851)
Transactions with owners:				
Dividends paid on ordinary shares	3	-	(6,744)	(6,744)
As at 31 March 2022 (Unaudited)		651	3,642	4,293
As at 30 September 2022 (Audited)		**651**	**7,011**	**7,662**
Six months ended 31 March 2023 (Unaudited)				
Net profit/(loss) for the period		**-**	**2,987**	**2,987**
Total comprehensive income for the six months ended 31 March 2023		**-**	**2,987**	**2,987**
Transactions with owners:				
Dividends paid on ordinary shares	3	**-**	**(518)**	**(518)**
As at 31 March 2023 (Unaudited)		**651**	**9,480**	**10,131**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Westpac Securities NZ Limited

Statement of cash flows for the six months ended 31 March 2023

	Note	Six months ended 31 March 2023 Unaudited $'000	Six months ended 31 March 2022 Unaudited $'000
Cash flows from operating activities			
Interest income received		**162,087**	42,023
Interest expense paid		**(162,589)**	(42,063)
Service fees received - related entities		**844**	700
Service fees paid - related entities		**(254)**	(251)
Operating expenses paid		**(265)**	(348)
Income tax paid		**(470)**	(590)
Net cash provided by/(used in) operating activities		**(647)**	(529)
Cash flows from investing activities			
Net movement in receivables due from related entities		**165,462**	(3,731,973)
Net cash provided by/(used in) investing activities		**165,462**	(3,731,973)
Cash flows from financing activities			
Net movement in payables due to related entities		**(8,569)**	4,117
Proceeds from debt issues		**5,095,794**	7,155,890
Repayments of debt issues		**(5,251,718)**	(3,425,258)
Dividends paid to ordinary shareholder	3	**(518)**	(6,744)
Net cash provided by/(used in) financing activities		**(165,011)**	3,728,005
Net increase/(decrease) in cash and cash equivalents		**(196)**	(4,497)
Cash and cash equivalents at the beginning of the period		**10,830**	14,200
Cash and cash equivalents at the end of the period		**10,634**	9,703

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

Note 1. Statement of accounting policies

These condensed interim financial statements ('**financial statements**') are general purpose financial statements prepared in accordance with the UK Listing Authority Disclosure and Transparency Rules and Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit entities, and the New Zealand equivalent to International Accounting Standard 34 *Interim Financial Reporting*. These financial statements are also compliant with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

Financial statements preparation

These financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and financial liabilities measured at fair value through income statement ('**FVIS**'). The going concern concept has been applied.

The financial statements were authorised for issue by the Board of Directors on 2 June 2023.

All amounts in these financial statements have been rounded in thousands of New Zealand dollars unless otherwise stated.

The accounting policies adopted in the preparation of these financial statements are consistent with the financial statements for the year ended 30 September 2022.

Amendments to Accounting Standards effective this period

No new accounting standards have been adopted by the Company for the half-year ended 31 March 2023. There have been no amendments to existing accounting standards that have a material impact on the Company.

Note 2. Debt issues

	Note	As at 31 March 2023 Unaudited $'000	As at 30 September 2022 Audited $'000
Short-term debt			
Commercial paper		**3,906,468**	5,489,471
Total short-term debt		**3,906,468**	5,489,471
Long-term debt			
Euro medium-term notes		**7,742,302**	8,192,491
Covered Bonds		**5,279,810**	3,937,141
Total long-term debt		**13,022,112**	12,129,632
Total debt issues		**16,928,580**	17,619,103
Debt issues measured at amortised cost	4	**13,022,112**	12,129,632
Debt issues measured at fair value		**3,906,468**	5,489,471
Total debt issues		**16,928,580**	17,619,103

Note 3. Related entities

Related entities of the Company are set out in Note 14 to the financial statements for the year ended 30 September 2022. There have been no changes to the related entities during the period.

During the period ended 31 March 2023, the Company paid dividends on its ordinary shares to the Company's immediate parent, Westpac New Zealand Operations Limited amounting to $518,000 (31 March 2022: $6,744,000).

In addition, $699,652,000 in lending was repaid by Westpac New Zealand Limited ('**WNZL**') to the Company.

During the period ended 31 March 2023, the Company recognised an expected credit loss ('**ECL**') on the loan receivable from WNZL of $2,244,113 (30 September 2022: $3,236,899).

During the period ended 31 March 2023, other interest income from WNZL increased to $98,831,763 (31 March 2022: $6,560,661). The increase is primarily due to the receivables from WNZL measured at FVIS (these transactions are predominantly floating rate and indexed to USD wholesale interest rates, which have increased during the period) being reset to higher interest rates, and the impact of the depreciation of NZD against the USD.

There were no other significant related entity transactions in the six months ended 31 March 2023.

Note 4. Fair value of financial assets and financial liabilities

Fair valuation control framework

The Company uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

- the revaluation of financial instruments;
- independent price verification;
- fair value adjustments; and
- financial reporting.

A key element of the framework is the Revaluation Committee, comprising senior valuation specialists from within the Westpac Banking Corporation and its controlled entities. The Revaluation Committee reviews the application of the agreed policies and procedures to assess that a fair value measurement basis has been applied.

The method of determining fair value differs depending on the information available.

Note 4. Fair value of financial assets and financial liabilities (continued)

Fair value hierarchy

A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement.

The Company categorises all fair value instruments according to the hierarchy described below.

Valuation techniques

The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category are outlined below:

Financial instruments measured at fair value

Level 1 instruments

The fair value of financial instruments traded in active markets based on recent unadjusted quoted prices. These prices are based on actual arm's length basis transactions.

The valuations of Level 1 instruments require little or no management judgement.

There are no financial instruments included in the Level 1 category (30 September 2022: nil).

Level 2 instruments

The fair value for financial instruments that are not actively traded are determined using valuation techniques which maximise the use of observable market inputs. Valuation techniques include:

- the use of market standard discounting methodologies;
- option pricing models; and
- other valuation techniques widely used and accepted by market participants.

Instrument	Balance sheet category	Includes	Valuation technique
Non-asset backed debt instruments	Debt issues	Commercial paper	Valued using observable market prices which are sourced from consensus pricing services, broker quotes or inter-dealer prices. If consensus prices are not available, these are classified as Level 3 instruments.
Financial assets at fair value through profit or loss due from WNZL	Receivables due from related entities	Loans	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of WNZL.

Financial assets at fair value through profit or loss due from WNZL as at 31 March 2023 were $3,877,820,000 (30 September 2022: $5,460,050,000).

Financial liabilities at fair value through profit or loss as at 31 March 2023 were $3,906,468,000 (30 September 2022: $5,489,471,000).

Level 3 instruments

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historical transactions. These valuations are calculated using a high degree of management judgement.

There are no financial instruments included in the Level 3 category (30 September 2022: nil).

Analysis of movements between fair value hierarchy levels

During the period, there were no transfers between levels of the fair value hierarchy (30 September 2022: no transfers between levels).

Financial instruments not measured at fair value

The detailed description of how fair value is derived for financial instruments not measured at fair value is set out in Note 16 to the financial statements for the year ended 30 September 2022.

The following table summarises the estimated fair value of the Company's financial instruments not measured at fair value:

	31 March 2023 (Unaudited)		30 September 2022 (Audited)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
	$'000	**$'000**	$'000	$'000
Financial assets not measured at fair value				
Loan included in receivables due from related entities - WNZL	**13,036,051**	**11,931,302**	12,153,473	10,990,639
Total financial assets not measured at fair value	**13,036,051**	**11,931,302**	12,153,473	10,990,639
Financial liabilities not measured at fair value				
Debt issues	**13,022,112**	**12,053,272**	12,129,632	11,100,903
Total financial liabilities not measured at fair value	**13,022,112**	**12,053,272**	12,129,632	11,100,903

For cash and cash equivalents, accrued interest included in due from related parties and due to related entities, other payables due to related entities, which are carried at amortised cost and other types of short-term, financial instruments, recognised in the balance sheet under other liabilities, the carrying amount is a reasonable approximation of fair value. These items are either short-term in nature or reprice frequently, and are of a high credit rating.

Notes to the financial statements

Note 5. Segment information

Operating segments are reported to the chief operating decision makers in a manner consistent with the financial statements. For this reason, no additional segment disclosure is made.

The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Company has determined that the group of Directors of the Company is its chief operating decision maker. The Directors of the Company are listed on page 1. This reflects that the Company is a wholly-owned, indirect subsidiary of WNZL and that the principal activity of the Company is to raise and manage offshore wholesale funding for WNZL.

Revenue from products and services

The Company does not generate any revenue from external customers.

Secondary reporting – geographic segments

All revenue is generated within New Zealand. On this basis, no geographical segment information is provided.

Note 6. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 31 March 2023 (30 September 2022: nil).

Independent auditor's review report

To the shareholder of Westpac Securities NZ Limited

Report on the condensed interim financial statements

Our conclusion

We have reviewed the condensed interim financial statements (the financial statements) of Westpac Securities NZ Limited (the Company) on pages 16 to 21, which comprise the balance sheet as at 31 March 2023, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six month period ended on that date, and a statement of accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that these accompanying financial statements of the Company do not present fairly, in all material respects, the financial position of the Company as at 31 March 2023, and its financial performance and cash flows for the six month period then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial statements* section of our report.

We are independent of the Company in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Company as providers of agreed upon procedure reports for the Company's debt issuance programmes. The provision of these other services has not impaired our independence.

Directors' responsibilities for the financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the financial statements

Our responsibility is to express a conclusion on the financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34.

A review of the financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these financial statements.

PricewaterhouseCoopers, PwC Tower, 15 Customs Street West, Private Bag 92162, Auckland 1142 New Zealand
T: +64 9 355 8000, www.pwc.co.nz

Who we report to
This report is made solely to the Company's shareholder. Our review work has been undertaken so that we might state those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder for our review procedures, for this report, or for the conclusion we have formed.

The engagement partner on the review resulting in this independent auditor's review report is Philip Taylor.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
2 June 2023

Auckland, New Zealand